

**AN ASSESSMENT OF THE VOLCKER INTERIM REPORT AND  
THE INDEPENDENT INQUIRY COMMITTEE INTO  
THE UNITED NATIONS OIL-FOR-FOOD PROGRAM**

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**House Committee on International Relations:  
Subcommittee on International Oversight and Investigations**

Chairman Rohrabacher, Ranking Member Delahunt, and distinguished Members of the Subcommittee on International Oversight and Investigations. Thank you for holding today's hearing on a very important topic: the Volcker Interim Report on the United Nations Oil-for-Food Program. The fact that the very first hearing this newly created subcommittee is holding is on the Oil-for-Food Program clearly demonstrates the importance of this issue and the key role Chairman Rohrabacher, Ranking Member Delahunt, and the Members of the subcommittee will play in getting to the root of this scandal. Mr. Chairman, this is the right hearing on the right issue at the right time.

I am sure that both sides of the political divide in Congress will agree with President Bush's recent call for "the U.N. to understand that there ought to be a full and fair and open accounting of the Oil-for-Food Program. In order for the taxpayers of the U.S. to feel comfortable about supporting the U.N., there has to be an open accounting." This testimony examines the Interim Report of the Independent Inquiry Committee into the United Nations Oil-for-Food Program, and raises major concerns regarding the overall effectiveness, independence and objectivity of this U.N.-appointed investigation.

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<sup>2</sup> The Heritage Foundation is a public policy, research, and educational organization operating under Section 501(C)(3). It is privately supported, and receives no funds from any government at any level, nor does it perform any government or other contract work. Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own, and do not reflect an institutional position for The Heritage Foundation or its board of trustees.

## **PART 1. THE VOLCKER INTERIM REPORT**

The Independent Inquiry Committee into the United Nations Oil-for-Food Program (IIC) released its interim report on February 3, 2005. The committee was appointed by U.N. Secretary-General Kofi Annan in April 2004 following calls for a Security Council–backed inquiry into the Oil-for-Food scandal. The three-member inquiry is chaired by former Federal Reserve Chairman Paul Volcker and includes South African Justice Richard Goldstone and Swiss Professor of Criminal Law Mark Pieth.

The committee’s 75-member staff, which includes three support personnel on loan from the U.N., operate on a \$30 million budget drawn from the U.N. Oil-for-Food escrow account, and comprises 28 nationalities. The committee has so far conducted 400 interviews in 25 countries, including interviews with 150 current and former U.N. employees, as well as with present and former Iraqi officials.

The IIC’s main terms of reference are to “collect and examine information relating to the administration and management of the Oil-for-Food Program, including allegations of fraud and corruption on the part of United Nations officials, personnel and agents, as well as contractors, including entities that have entered into contracts with the United Nations or with Iraq under the Program.”

The interim report was published at a sensitive time for the United Nations. There is little doubt that the scandal has harmed the reputation of the world organization.<sup>3</sup> Secretary-General Annan has come under fire for what is arguably the biggest scandal in the history of the U.N. and the largest financial fraud of modern times.

Annan is facing growing calls for his resignation from Capitol Hill, where Senator Norm Coleman (R– MN), Chairman of the Senate Permanent Subcommittee on Investigations, and 60 Members of the House of Representatives have called for Annan to step down.<sup>4</sup> Among them are nine members of the House Appropriations Committee, which provides 22 percent of the U.N. operating budget each year, and eight members of the House International Relations Committee. It is likely that more Senators will join Coleman’s call for Annan’s departure.

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<sup>3</sup> For background on the Oil-for-Food issue, see Nile Gardiner, James Phillips, and James Dean, “The Oil-for-Food Scandal: Next Steps for Congress,” Heritage Foundation *Backgrounder* No. 1772, June 30, 2004, at [www.heritage.org/Research/InternationalOrganizations/bg1772.cfm](http://www.heritage.org/Research/InternationalOrganizations/bg1772.cfm).

<sup>4</sup> “Expressing the sense of the House of Representatives that due to the allegations of fraud, mismanagement, and abuse within the United Nations Oil-for-Food Program, Kofi Annan should resign from the position of Secretary-General of the United Nations to help restore confidence that the investigations into those allegations are being fully and independently accomplished,” H. Res. 869, 108th Cong., 2nd Sess., December 6, 2004, at [thomas.loc.gov/cgi-bin/bdquery/z?d108:HE00869:@@@P](http://thomas.loc.gov/cgi-bin/bdquery/z?d108:HE00869:@@@P) Representative Roger F. Wicker (R–MS) sponsored the resolution.

In addition, the Bush Administration has begun to harden its stance toward Annan. Outgoing Secretary of State Colin Powell warned the embattled Secretary-General that he will be held accountable for management failures in the Oil-for-Food Program.<sup>5</sup> President George W. Bush has so far refused to express his confidence in Annan, declining to meet with him in December when the Secretary-General visited Washington.

Outside the Oil-for-Food scandal, Annan's problems are also mounting. He has acknowledged and accepted organizational responsibility for a major scandal involving U.N. personnel and peacekeepers in the Congo. In addition, internal unrest within the U.N. continues to mount in the wake of a series of harassment scandals involving senior U.N. managers. The threat of a U.N. staff revolt looms large. If 2004 was Kofi Annan's "annus horribilis," 2005 threatens to be even worse. It was amidst this charged atmosphere that Mr. Volcker unveiled his eagerly awaited report.

### **Key Findings of the Volcker Interim Report**<sup>6</sup>

The IIC Interim Report addresses the following subjects:

- The initial procurement in 1996 of the three U.N. contractors responsible for critical components of the Oil-for-Food Program: inspection of oil exports (Saybolt Eastern Hemisphere BV), the inspection of humanitarian goods imports (Lloyd's Register Inspection Ltd.), and the holding, in escrow, of the proceeds and payments within the Program (Banque National de Paris).
- Internal Programme Audits carried out by the U.N.'s Office of Internal Oversight Services (OIOS).
- Administrative Expenditures i.e. funds allocated to the U.N. for administrative purposes – the ESD Account funded with approximately 2.2 percent of the Program's oil proceeds.

The Interim Report also addresses allegations made against Benon Sevan, the Executive Director of the Office of the Iraq Program (OIP). The report does not address the relationship between Secretary-General Kofi Annan's son Kojo, and the Swiss company Cotecna Inspection SA, which replaced Lloyd's Register in December 1998. Nor does it examine Annan's overall role in overseeing the Oil-for-Food Program

The most significant findings of the Interim Report relate to the following:

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<sup>5</sup> See Sean Hannity, interview with Colin Powell, partial transcript, *Fox News*, January 12, 2005, at [www.foxnews.com/story/0,2933,144218,00.html](http://www.foxnews.com/story/0,2933,144218,00.html)

<sup>6</sup> Independent Inquiry Committee into the United Nations Oil-for-Food Programme, *Interim Report*, February 3, 2005, at <http://www.iic-offp.org/documents/InterimReportFeb2005.pdf> (Hereafter referred to as *IIC Interim Report*).

- **Benon Sevan**

Benon Sevan, a Cypriot, served as Under Secretary-General and Executive Director of the United Nations Office of the Iraq Program from 1997 to 2004. A career U.N. employee since 1965, Benon Sevan has served in numerous U.N. positions, including Assistant Secretary-General and Deputy Head of the Department of Political Affairs. He has been the subject of intense scrutiny since being named in the report of U.S. weapons inspector Charles Duelfer, in which he allegedly received a voucher for 13 million barrels of oil from Saddam Hussein.

The IIC conducted an intensive investigation of Sevan's conduct as head of the OIP, "a position of immense power and transnational responsibility." His job placed him in a position of constant communication with the Saddam Hussein regime, and numerous U.N. member states, including each of the members of the Security Council. Sevan "supervised or coordinated the activities of hundreds of international staff in New York and overseas, including a considerably larger number of citizens of Iraq."<sup>7</sup>

The Volcker Report's findings into Benon Sevan's conduct while head of the OIP are damning. The Committee concluded that Sevan "solicited and received on behalf of AMEP (African Middle East Petroleum Co Ltd Inc) several million barrels of allocations of oil from 1998 to 2001. As a result of Mr. Sevan's conduct, AMEP's revenue – net bank fees and surcharge payment – totaled approximately \$1.5 million." The IIC declared that Sevan's actions "presented a grave and continuing conflict of interest, were ethically improper, and seriously undermined the integrity of the United Nations."<sup>8</sup>

The seriousness of the charges leveled against Benon Sevan by the IIC Interim Report clearly merit criminal prosecution, and the U.N.'s pledge to lift diplomatic immunity for Mr. Sevan is an important first step in the right direction.

Mr. Sevan should also be interviewed by Congressional investigators to shed more light on his illicit activities, as well as any criminal activity by members of his staff. Besides facing justice, Sevan should additionally serve as a vitally important source of information regarding attempts by the Saddam Hussein regime to influence decision-making at the U.N. and the Security Council. Several key questions need to be answered:

- How did Sevan manage to blatantly flout U.N. rules without any suspicions being raised?
- Why was there no oversight of Sevan's management of the Office of the Iraq Program?

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<sup>7</sup> *IIC Interim Report*, p.123.

<sup>8</sup> *IIC Interim Report*, p.163. According to the report, "Sevan solicited and received on behalf of AMEP oil allocations totaling 14.3 million barrels, of which AMEP lifted approximately 7.3 million barrels of oil." (p.151).

- To what extent was Kofi Annan aware of corrupt practices within the OIP?
- Were other U.N. staff assisting Sevan with his illicit activities?
- How extensive were the ties between Sevan and the Saddam Hussein regime?
- How was Sevan picked to become Director of the OIP?
- Were allegations of corruption leveled against Sevan when he served in previous U.N. positions?

- **Boutros Boutros-Ghali, Banque Nationale de Paris and the UN Escrow Account**

The UN's decision to appoint the French company Banque Nationale de Paris (BNP) to administer the Oil-for-Food escrow account is the subject of intense scrutiny in the IIC Interim Report. Vast sums of money were handled through the escrow account. The Saddam Hussein regime sold more than \$64.2 billion of oil under the Oil for Food Program between 1996 and 2003.<sup>9</sup> BNP was selected by then U.N. Secretary General Boutros Boutros-Ghali, even though the decision did not conform to the requirement under U.N. financial rules to accept the "lowest acceptable bidder".<sup>10</sup>

The IIC Report demonstrates that several banks were better placed to manage the Iraq escrow account on the basis of their higher credit quality (based on IBCA ratings): Union Bank of Switzerland, Deutsche Bank, Credit Suisse, Citibank and Chase Manhattan.<sup>11</sup> The U.N. Treasury eventually opted for Credit Suisse as first choice to run the escrow account, but BNP was awarded the contract.

Boutros-Ghali's decision to select BNP over more qualified competitors should become the subject of Congressional scrutiny. The following questions need to be answered:

- How much influence did Saddam Hussein wield over Boutros-Ghali's final decision?
- To what extent did the U.N. give the Iraqi regime a veto over the choice of bank for the U.N. escrow account?
- How close was the relationship between Boutros-Ghali and the Saddam Hussein regime?
- What role did the French government play in the U.N. decision to opt for BNP?

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<sup>9</sup> *IIC Interim Report*, p.58.

<sup>10</sup> *IIC Interim Report*, p. 109.

<sup>11</sup> *IIC Interim Report*, p.76.

- What was the nature of the relationship between BNP and the Iraqi government, both before it won the escrow account, and during the period in which it administered the account?

- **The Secretive U.N. Iraq Steering Committee**

The Interim Report sheds initial light on the powerful Iraq Steering Committee, created by Boutros-Ghali “to ensure the timely and effective implementation” of the Oil-for-Food Program and designed to report to the Secretary General “on a regular basis.” It operated in a highly secretive manner, and “did not keep official records or minutes of proceedings and determinations.” Significantly, the U.N. archives are “devoid of records of the Steering Committee.”<sup>12</sup>

The Steering Committee was chaired by Chinmaya Gharekhan, Under Secretary-General and Senior Adviser to the Secretary-General, and included five other high-level U.N. officials: Yakushi Akashi, Under Secretary-General for Humanitarian Affairs; Joseph E. Connor (an American), Under-Secretary-General for Administration and Management; Hans Corell, Under Secretary-General for Legal Affairs; Marrack I. Goulding, Under Secretary-General for Political Affairs; and Yukio Takasu, Assistant Secretary-General and Controller.<sup>13</sup>

There is a strong case to be made for members of the Iraq Steering Committee to testify before Congress, and to assist with the inquiries of Congressional investigators. The impression gained from the Volcker Report is of a powerful policy group surrounding the Secretary-General which operated without accountability or transparency, and which completely avoided any form of scrutiny.

The Steering Committee is a symbol of the pervasive culture of secrecy and unaccountability within the U.N. system regarding its handling of the Oil-for-Food Program. It is in the public interest that the operations of the Steering Committee be subject to Congressional investigation.

### **The UN Oil for Food Audits**

The Volcker Interim Report should be read alongside the Independent Inquiry Briefing Paper which accompanied the release in January 2005 of 55 internal U.N. audits on the Oil-for-Food Program.<sup>14</sup>

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<sup>12</sup> *IIC Interim Report*, p.69.

<sup>13</sup> For further biographical details see *the IIC Interim Report Glossary of Individuals*.

<sup>14</sup> “Internal Audit Reports of the United Nations Oil-for-Food Program,” Briefing Paper prepared by the Independent Inquiry Committee into the United Nations Oil-for-Food Program, January 9, 2005, at <http://www.iic-offp.org/documents/IAD%20Briefing%20Paper.pdf>.

It is not hard to see why U.N Secretary-General Kofi Annan strongly resisted the release of internal U.N documents relating to the Oil-for-Food Program. The 55 audits produced by the Internal Audit Division (IAD) of the U.N. Office of Internal Oversight Services paint an ugly tableau of widespread mismanagement and incompetence on the ground in Iraq, which undoubtedly played an important role in clearing the way for Saddam Hussein to skim billions of dollars from a humanitarian program designed to help the Iraqi people. In particular, the United Nations failed to effectively oversee the U.N.-appointed contractors whose role it was to inspect humanitarian goods coming into Iraq and the export of oil from the country. In addition, the U.N. wasted millions of dollars as a result of overpayments to contractors, appalling lack of oversight, and unjustified spending.

The U.N. audits were only released after pressure from Congress and the Bush Administration, as well as calls from Capitol Hill for U.N. Secretary-General Kofi Annan's resignation. The failure to release the audits earlier has hurt Annan's reputation and lent the impression of cover-up, as well as reinforcing the general lack of openness and accountability on the part of the U.N. with regard to Oil-for-Food.

In reference to the 24 U.N. audits conducted between 1998 and 2002 covering procurement, project management, and contract management at the Office of the Iraq Program and the Iraq-based organizations, the U.N. Office for the Humanitarian Coordinator for Iraq (UNOHCI), the U.N. Center for Human Settlements (UNCHS), and the U.N. Department of Economic and Social Affairs (DESA), the Volcker Committee concluded,

*[T]he audit reports describe inadequate procedures, policy, planning, controls and coordination across numerous areas of activity. Some reports, most notably those on DESA, present a wholesale failure of normal management and controls. The reports offer a picture of several organizations debilitated by stress and insufficient resources that too frequently operated in an ineffective, wasteful and unsatisfactory manner. Based on the reports, it appears the OFFP management was not quick to react to criticism and was either unable or unwilling to address issues raised by IAD. In cases where monetary losses from inadequate control and poor judgment were calculated by IAD, the results were often significant—approximately \$5 million in total.<sup>15</sup>*

The Volcker briefing paper was similarly scathing in its assessment of the findings of the three audits of the performance of the U.N. contractors operating in Iraq—Lloyd's Register, Cotecna, and Saybolt:

*The problems identified by IAD during these audits resulted in approximately \$1.4 million in total losses. In all three cases, auditors determined that the initial contract items were not understood or adhered to by the contractors and that OIP*

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<sup>15</sup> Ibid.

*(Office of the Iraq Program) subsequently failed to conduct adequate monitoring of contract execution.<sup>16</sup>*

Significantly, the audits do not cover the critically important oil and humanitarian aid contracts signed by the Saddam Hussein regime under the auspices of the Oil-for-Food Program. Not one oil or humanitarian goods contract was directly monitored by the U.N., despite the fact that monitoring was the direct responsibility of U.N. officials. Nor was there any significant audit oversight of the New York headquarters of the Oil-for-Food Program.

That the audits were limited in scope was clearly the result of a major abdication of responsibility by the senior management of the United Nations. In the words of the Volcker Committee (emphasis added),

***There were no examinations of the oil and humanitarian contracts by IAD during the OFFP. Oil contracts were not examined with an eye to the enforcement of contract requirements, despite the fact that U.N. officials had contract approval responsibilities. It is possible that more comprehensive monitoring and a greater emphasis on fidelity to contract requirements would have deterred the surcharge scheme that resulted in decreased oil prices and lost revenues to the Escrow account. In the same vein, humanitarian contracts were not scrutinized to ensure consistency of the goods with the distribution plan under which they were purchased. They were also not evaluated on the basis of fairness of the price and quantity of goods purchased. Testing the humanitarian contracts for price fairness could have revealed irregularities and undercut the Iraqi government's kickback scheme that resulted in lost revenues to the Escrow account and significant sanctions violations.<sup>17</sup>***

In addition, the Volcker Committee also makes clear that the Oil-for-Food audits virtually ignored the role played by the Office of the Iraq Program, headed by Benon Sevan. This is despite the fact the headquarter's running costs amounted to 40 percent of the nearly \$1 billion in total administrative costs of the Oil-for-Food Program, a staggering figure. As the Committee's report concludes,

*[T]he lack of focus on headquarters functions, oil purchase and humanitarian aid contracts, and bank letter of credit operations, in combination with the slow pace of audit performance, appear to have deprived the U.N. of a potentially powerful agent in helping to ensure accountability, particularly in the early years of the OFFP.<sup>18</sup>*

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<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

## **Key Omissions from the Volcker Interim Report**

- **The Role of Kofi Annan**

For a 219-page report into U.N. management of the Oil-for-Food Program, it seems rather odd that the man with overall responsibility for its operations barely merits a footnote. Secretary General Kofi Annan is as elusive as the Scarlet Pimpernel at the height of the French Revolution amidst the weighty pages of Mr. Volcker's report. The IIC has promised further details relating to the role of Kofi Annan's son Kojo in the hiring of the Swiss Oil-for-Food contractor Cotecna, but the Secretary-General's glaring omission from the pages of the Interim Report defies explanation and smacks of political interference.

Considering the fact that Mr. Annan hand-picked Benon Sevan to head the Oil-for-Food Program, it is extremely surprising that the Volcker report does not seek to explore the background to Mr. Sevan's appointment and his working relationship with the Secretary-General. Nor does the Report at any time consider what the Secretary-General might have known about failings with regard to the OFFP at various stages of its existence.

- **The Lack of U.N. Oversight of the Office of the Iraq Program**

The IIC Interim Report makes no serious effort to explain why the Office of the Iraq Program did not receive significant scrutiny from the Office of Internal Oversight Services. It also makes no attempt to question why Secretary-General Annan did not keep an eye on the New York headquarters of the U.N.'s biggest humanitarian operation. The strong friendship between Mr. Sevan and Mr. Annan must surely warrant investigation as a possible factor behind the lack of oversight exercised over the Office of the Iraq Program. Clearly, Annan was either asleep at the wheel and grossly negligent, or deliberately turned a blind eye to widespread mismanagement as well as corruption.

The role of the U.N. Secretariat should also be brought into question. After all, the Volcker Report makes it clear that "although the Security Council and its 661 Committee exercised combined supervisory and operational oversight of the Programme, the Secretariat of the United Nations administered its day-to-day operation."<sup>19</sup> The IIC sheds no light whatsoever on the involvement of the Secretariat in overseeing the work of the OIP.

- **Attempts by Saddam Hussein to influence Security Council members**

The detailed allegations made by Chief U.N. Weapons Inspector Charles Duelfer regarding Iraqi attempts to influence members of the Security Council in an effort to lift U.N. sanctions receive scant attention in the Interim Report. The close ties between Russian and French politicians and the Iraqi regime and the huge French and Russian

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<sup>19</sup> IIC Interim Report, p.58.

financial interests in pre-liberation Iraq were almost certainly an important factor in influencing their governments' decision to oppose Hussein's removal from power.

The Oil-for-Food Program and its elaborate system of kickbacks and bribery was a major source of revenue for many European politicians and business concerns, especially in Moscow. Congressional hearings on the financial, political, and military links between Moscow, Paris, and Baghdad should shed light on the tempestuous Security Council debates that preceded the war with Iraq and on the motives of key Security Council members in opposing regime change in Baghdad.

### **The UN's Response to the Volcker Interim Report**

The U.N.'s response to the Volcker report was largely expected: guarantees of disciplinary action against two U.N. officials, combined with grandiose promises of institutional reforms, but overshadowed by a collective sigh of relief, a misguided sense of vindication, and open mocking of calls for Kofi Annan's resignation. Notably absent from the U.N.'s response was any sign of humility, contriteness or accountability on the part of the U.N. Secretary-General and his senior aides. Indeed, the breathtaking arrogance displayed by U.N. officials such as Chief of Staff Mark Malloch Brown in the immediate aftermath of the Volcker report, will only confirm the fears of many in Congress who seriously doubt the U.N.'s ability to learn any lessons from the Oil-for-Food scandal. The word "apology" clearly does not appear to exist in the U.N. staff handbook, and it is hard to avoid the conclusion that the leadership of the United Nations continues to exist in a state of self-denial with regard to the institution's declining credibility.

The words of Mark Malloch Brown, former head of the United Nations Development Program (UNDP), and Annan's newly appointed right hand man, deserve careful Congressional scrutiny, if proof be needed of the U.N.'s lack of genuine commitment to holding itself accountable for the Oil-for-Food debacle. Malloch Brown, who counts Benon Sevan as "a lifelong colleague and a dear dear friend"<sup>20</sup>, has been quick to downplay the broader significance of Volcker's findings.

Malloch Brown has slammed U.S. critics of the U.N.'s management of the Oil-for-Food Program by arguing in an interview with the BBC that "*frankly from our point of view this report today is overall good news... This report says the program overall was apparently well managed – money was not going missing. It was used for the purposes it was assigned. The problems were limited to the margins.*"<sup>21</sup>

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<sup>20</sup> Quoted by Philip Sherwell and Charles Laurence, "The Scandal Kofi Couldn't Cover Up", *The Sunday Telegraph*, February 2, 2005, at

<http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2005/02/06/wun106.xml>

It should be noted that, despite his friendship with Benon Sevan, Malloch Brown has stated that "no one will be shielded from prosecution. If there are criminal charges, the U.N. will fully co-operate and waive diplomatic immunity of staff members, whoever they are."

<sup>21</sup> Mark Malloch Brown, interview with BBC Radio 4 *Today Programme*, February 4, 2005, at <http://www.bbc.co.uk/radio4/today/listenagain/friday.shtml>

Malloch Brown dismissed the suggestion that the Oil-for-Food scandal may be the biggest financial scandal in the history of the U.N., telling the BBC that *“it is dwarfed by corporate scandals. It is dwarfed by government scandals around the world. Because it is the U.N. it has a particular resonance because this is the snake in the garden of Eden.”*<sup>22</sup>

In Malloch Brown’s view, the real culprit in the Oil-for-Food scandal is not the U.N., but members of the Security Council such as the United States, who it is alleged turned a blind eye to illicit oil smuggling. Completely ignoring the findings of the U.S. Senate Permanent Subcommittee on Investigations, and the General Accountability Office (GAO), that the Saddam Hussein regime illicitly gained billions of dollars through the Oil for Food Program<sup>23</sup>, Annan’s Chief of Staff challenges Congressional critics to *“look a little closer to home”* with regard to the estimated total of \$21 billion siphoned off by Saddam:

*“This report (the Volcker Interim Report) makes it clear that a very very very tiny fraction of that was within the U.N. program. Most of it was oil smuggling condoned by the United States and other Security Council members, including Britain (and) reported on to Congress as an acceptable breach of the Program, which for political reasons had to be allowed. So the billions which went missing was because of that kind of realpolitik calculation by governments. The U.N. bit of it is a very small part, yet it’s the bit that has attracted all of the attention and allegations of corruption, and I think it’s time the critics took this report for what it was – an admission that there were weaknesses and failings and perhaps even corruption on the part of one or two individuals, but that it has to be put within the context of much broader failures by governments than those that occurred within the U.N.”*<sup>24</sup>

## **Conclusions Regarding the Volcker Interim Report**

The Independent Inquiry Committee Interim Report does a reasonably efficient job with regard to its narrow areas of focus. The IIC investigation into the activities of Benon Sevan have been detailed, and should rightly pave the way for a criminal prosecution. It has shed important light on the workings of the secretive Iraq Steering Committee, and has revealed political interference by a senior U.N. official in the procurement of U.N. contractors Saybolt and Lloyd’s Register.

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<sup>22</sup> Ibid.

<sup>23</sup> See ‘Comparison of Estimates of Illicit Iraqi Income During United Nations Sanctions’, *IIC Interim Report*.

<sup>24</sup> Ibid.

Perhaps the most significant revelation in the Report is its conclusion that U.N. Secretary-General Boutros Boutros-Ghali personally selected the French Banque Nationale de Paris to handle the hugely important Iraq escrow account, which administered tens of billions of dollars. This despite the fact that BNP was not the best qualified bank to handle the task. Boutros Ghali is likely to be the subject of major investigation by Congress in the months to come.

While acknowledging that this is an interim report, published mid-way through the IIC's investigation, it has to be said, however, that it goes to considerable lengths to avoid making broad-based hard hitting criticisms of the U.N. as an institution and the organization's senior management. To say that the Volcker Interim Report has been soft on the United Nations as a world body as well as its leadership is an understatement. It is little surprise that the U.N.'s well oiled spin machine has begun already to downplay the wider significance of the report's findings, and to laugh off suggestions that senior U.N. managers (with the exception of Sevan and another official Joseph Stephanides<sup>25</sup>) might actually be held accountable for the U.N.'s failings and be forced to step aside.

The complete lack of any criticism, or even mention, of U.N. Secretary General Kofi Annan, is a glaring omission that does not engender confidence in the Volcker Committee's goal of producing "the definitive report" into the U.N.'s handling of the Oil-for-Food Program. Indeed, history has shown that few organizations are truly capable of investigating themselves in a thoroughly objective manner, and the United Nations is no exception. The willingness to give the U.N. the benefit of the doubt, and permit its head to pick his own 'independent' committee of investigation with a complete monopoly over documents and witnesses, may in future years be regarded as a huge error of judgment.

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<sup>25</sup> Stephanides was Chief of the Sanctions Branch and Deputy Director of the Security Council Affairs Division, United Nations Department of Political Affairs, in 1996.

## **Part 2. The Independent Inquiry Committee into the United Nations Oil-for-Food Program**

### **Problems of Credibility Relating to the Independent Inquiry Committee**

The Volcker Committee may fail to deliver a final exhaustive account of U.N. failings and possible criminal activity by U.N. officials for several reasons, including a lack of investigative power and an absence of real independence from the U.N. Indeed, the five congressional investigations now underway could well prove more effective in uncovering the full story of the Oil-for-Food fraud that allowed the Saddam Hussein regime to enrich itself at the expense of the Iraqi people.

The Independent Inquiry Committee is severely handicapped by its dearth of investigative power. Even if it wanted to, the committee clearly does not possess the means to fully investigate this gigantic scandal. As outgoing U.S. Ambassador to the U.N. John Danforth has pointed out, the IIC is not equipped with the necessary tools to conduct a thorough investigation:

*The fact that [Volcker] doesn't have subpoena power, he doesn't have a grand jury, he can't compel testimony, he can't compel production of documents and witnesses and documents that are located in other countries might be beyond his reach....*

*Those are tremendous handicaps.... [W]hat is possible, is that his focus would move from the bad acts, from the criminal offenses to something that he will view as more manageable—namely the procedures and was it a tight enough procedural system, which might be interesting but not the key question to investigate.<sup>26</sup>*

At the same time, there are also major questions regarding the independence of the Volcker Committee. So far, the names of just 10 senior staff have been released, including Reid Morden, former Director of the Canadian Security Intelligence Service, and Swiss magistrate Laurent Kasper-Ansermet.<sup>27</sup> However, no details have been released regarding the remaining staff of investigators that are actually doing the investigating and handling the huge volume of documents. It remains unclear how many former U.N. employees are involved with the committee. It is self-evident that a truly

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<sup>26</sup> John Danforth, quoted in Fox News, “Danforth: Volcker Doesn’t Have Right Tools,” January 8, 2005, at [www.foxnews.com/story/0,2933,143714,00.html](http://www.foxnews.com/story/0,2933,143714,00.html)

<sup>27</sup> Paul A. Volcker, “A Road Map for Our Inquiry,” *The Wall Street Journal*, July 7, 2004.

independent inquiry into U.N. corruption should not be staffed either by former U.N. employees or by any other people with significant ties to the U.N.

Without any kind of external oversight, the Volcker Committee is clearly open to U.N. manipulation. Paul Volcker, handpicked by Annan, is under immense pressure from the U.N. to clear the Secretary-General and restore the reputation of the United Nations. Refusing to hand over to Congress the 55 highly damaging internal U.N. Oil-for-Food audits until January of this year only added to the impression of a major cover-up by the U.N.

### **Paul Volcker and an Apparent Conflict of Interest**

In addition to the problems outlined above, the fact that Mr. Volcker's own outlook may be influenced by past associations should be an issue of serious concern. It is vitally important that any independent inquiry into the extremely serious allegations against the United Nations over its management of the Oil-for-Food Program be totally independent of the U.N. It is just as important that the person heading the inquiry be completely unbiased and objective in his approach to the organization he is investigating. For example, in the corporate world, it would be inconceivable for an independent inquiry into fraud and corruption to be headed by someone with strong ties and loyalties to the corporation being investigated.

However, in the case of Volcker and the IIC, there is an apparent conflict of interest that brings into question whether or not the committee can be relied upon to investigate the United Nations objectively. When Volcker was appointed to head the Oil-for-Food investigation in April 2004, it was not widely known by the public, the world's media, and the U.S. Congress that he was a director of the United Nations Association of the United States of America (UNA–USA) and the Business Council for the United Nations (BCUN). Volcker is listed as a director in the 2003–2004 UNA–USA annual report,<sup>28</sup> as well as in the annual reports for 2001–2002 and 2000–2001.<sup>29</sup>

His biography on the Independent Inquiry Committee's Web site does not mention his involvement with the UNA–USA,<sup>30</sup> a rather striking omission considering that he is charged with conducting a highly sensitive investigation into the U.N. Volcker does disclose his other institutional affiliations—including the Trilateral Commission, the Institute of International Economics, the American Assembly, and the American Council on Germany—but is seemingly shy about his work with the United Nations Association.

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<sup>28</sup> United Nations Association of the United States of America, *60 Years of Educating Americans About the United Nations: UNA– USA Annual Report 2003–2004*, at [www.unausa.org/pdf/publications/2003\\_annual\\_report.pdf](http://www.unausa.org/pdf/publications/2003_annual_report.pdf)

<sup>29</sup> United Nations Association of the United States of America, *Annual Report 2001–2002*, at [www.unausa.org/./pdf/ar02.pdf](http://www.unausa.org/./pdf/ar02.pdf), and *Annual Report 2000–2001*, at [www.unausa.org/./pdf/ar01.pdf](http://www.unausa.org/./pdf/ar01.pdf)

<sup>30</sup> Independent Inquiry Committee into the United Nations Oil-for-Food Programme, “Members,” at [www.iic-offp.org/members.html](http://www.iic-offp.org/members.html)

The United Nations Association of the United States of America is a vocal pro-U.N. advocacy group that “supports the work of the United Nations.” In the words of a grateful Kofi Annan:

*There are United Nations Associations in many other countries, but this one is unique—both in the challenges it faces and in the energy and resources it devotes to tackling them. From our perspective, it is hard to think of any work more valuable than what you do to improve the understanding of United Nations issues in our host country.*<sup>31</sup>

A key goal of the United Nations Association is to “greatly expand and contribute to Americans’ understanding of the U.N. and its importance to the U.S. by increasing the channels through which we inform Americans, particularly opinion-makers, elites, UNA–USA members and students.”<sup>32</sup> It is also a forceful advocate of U.S. membership of the International Criminal Court.

The UNA–USA has played a significant role in defending the U.N.’s response to the Oil-for-Food scandal and the leadership of Secretary-General Annan. It has also prominently defended the reputation of the Oil-for-Food Independent Inquiry Committee. To a great degree, the UNA–USA has acted as lead cheerleader for the U.N. and the Volcker Committee with regard to the Oil-for-Food controversy. Its talking points on “The Oil-for-Food Programme,” for example, argue that the Volcker report “will be objective, thorough and fair” and that “the U.N. Security Council—not the Secretary-General or his staff—had ultimate oversight authority for the Oil-for-Food Programme.” The UNA–USA has criticized the “politically motivated attacks” on the U.N. over Oil for Food and the calls for Annan’s resignation, which it says “constitute an effort to undermine the U.N., which is a real objective for many of those who are distorting the facts on this complex issue.”<sup>33</sup>

The UNA–USA’s partner organization, the Business Council for the United Nations, works to “advance the common interests of the U.N. and business in a more prosperous and peaceful world.” One of its chief underwriters was BNP Paribas,<sup>34</sup> the French bank that held the escrow account for Oil-for-Food funds. BNP donated more than \$100,000 to UNA–USA and the BCUN in 2002 to 2003.<sup>35</sup> BNP’s role in the Oil-for-Food scandal is

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<sup>31</sup> Kofi Annan, quoted in United Nations Association of the United States of America, *Annual Report 2001–2002*, p. 9.

<sup>32</sup> United Nations Association of the United States of America, *60 Years of Educating Americans About the United Nations*, p. 3.

<sup>33</sup> United Nations Association of the United States of America, “The Oil-for-Food Programme,” talking points, December 2004, at [www.unausa.org/policy/newsactionalerts/advocacy/tpoff.asp](http://www.unausa.org/policy/newsactionalerts/advocacy/tpoff.asp)

<sup>34</sup> United Nations Association of the United States of America, *Annual Report 2000–2001*, p. 22.

<sup>35</sup> United Nations Association of the United States of America, *60 Years of Educating Americans About the United Nations*, p. 28.

currently being investigated by the House International Relations Committee,<sup>36</sup> as well as by the Volcker Committee.

### **Key Recommendations Regarding the Independent Inquiry Committee**

- A mechanism for external oversight of the operations of the Independent Inquiry Committee should be put in place. Its operations are shrouded in secrecy, with little transparency.
- In the interests of openness and accountability, the IIC should fully disclose the identities and previous affiliations of all 60 staff members.
- Transcripts of interviews conducted between the IIC and U.N. officials, including Secretary-General Kofi Annan, should be publicly disclosed along with the final findings of the IIC.
- Members of the U.N. Security Council should be furnished with regular monthly updates on the IIC investigation, including a full list of interviewees.
- A firm date should be set for final publication of the IIC report. The timing of the report's release must not be open to political manipulation by the U.N.
- The United Nations should make available for interview to congressional investigators all U.N. personnel involved in managing and staffing the Oil-for-Food Program.
- All U.N. documents relating to the Office of the Iraq Program, headed by Benon Sevan, should also be made available to Congress. The U.N. should not have a monopoly of vital evidence.

### **Conclusions Regarding the Independent Inquiry Committee**

Supporters have hailed the Independent Inquiry Committee into the Oil-for-Food Program as a huge step forward for the United Nations in terms of increasing accountability and transparency. They have held it up both as an example of a new spirit of openness supposedly sweeping through the world body and as a powerful symbol of Kofi Annan's stated objective to restore the reputation of the U.N.

In reality, the Volcker Committee suffers from a huge credibility problem of its own. It is hard to see how a team of investigators handpicked by the U.N. Secretary-General, whose son is himself a subject of investigation, can be considered truly independent. There is also a major question mark over its chairman's neutrality. Considering Mr. Volcker's

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<sup>36</sup> See Bill Gertz, "Bank Lapses Cited in Iraq Oil Program," *The Washington Times*, November 18, 2004, at [www.washtimes.com/national/20041118-120331-8156r.htm](http://www.washtimes.com/national/20041118-120331-8156r.htm)

several years as a director of the United Nations Association and the Business Council for the United Nations, it is difficult to see how he could cast a critical, objective eye on the U.N.'s leadership. It is inconceivable that Kofi Annan was unaware of Volcker's close ties to the UNA–USA when he appointed him to head the Oil-for-Food investigation. Indeed, it could well have been an important factor influencing his decision.

There are also major concerns over the IIC's lack of transparency. The U.N.-appointed investigation has operated in astonishing secrecy, with virtually no outside scrutiny. For an inquiry designed to unearth hidden corruption and malpractice on a huge scale, it is strikingly opaque. Such is its level of secrecy that its Web site does not even contain a mailing address.

In addition to its clear lack of independence and questionable covert operating style, there are serious doubts with regard to the IIC's ability to do its job. The Volcker Committee bears all the hallmarks of a toothless paper tiger: it carries no enforcement authority (such as the power to punish contempt) to compel compliance with its requests for information and has no authority to punish any wrongdoing that it discovers.

As the U.N. faces a major crisis of public confidence, it is imperative that any investigation of U.N. corruption and mismanagement be seen as independent, open and transparent. It is regrettable that the Volcker Committee is failing on all counts. Indeed, the U.N.-appointed Independent Inquiry Committee should not be seen as the definitive investigation of the Oil-for-Food Program. It should be viewed as one of several major investigations and, on current evidence, far less credible than its congressional counterparts.

## Overall Recommendations

- **Kofi Annan Must be Held Accountable for Failings in the Oil-for-Food Program**

In order to begin the process of restoring the reputation of the United Nations, Mr. Annan should step down. The fact that Annan remains in office despite growing evidence of widespread U.N. failings with regard to the Oil-for-Food Program sends a message of impunity, arrogance and unaccountability on the part of the leadership of the United Nations. It also sets a poor precedent for future leaders of the U.N., who will be encouraged to believe they will not be held to account for the organization's failures. Annan is increasingly a 'lame duck' Secretary-General who has become a severe liability to the effectiveness of the U.N. as a world body. Serious reform of the organization to make it more transparent, effective, and accountable will be impossible as long as he remains in power.
- **Future Inquiries into U.N. Scandals Must be Fully Independent**

The U.N. Secretary-General should not in future be allowed to pick his own committee of investigation into a U.N. scandal, and then pass it off as 'independent'. Such inquiries will always be open to the possibility of political interference and manipulation by those being investigated. Congress should insist on future investigations into U.N. scandals being completely independent of the United Nations Secretary-General. Chairmen of such inquiries should also be asked to disclose on appointment all potential conflicts of interest, either business or political.
- **An External Oversight Authority Must be Established for the UN**

The U.N.'s Office of Internal Oversight Services lacks the tools, expertise, public confidence, and above all independence, to conduct effective, transparent and impartial investigations of allegations of fraud and mismanagement within the United Nations. An external oversight body, completely independent of the UN, should be established to act as a watchdog over U.N. operations, including humanitarian programs and peacekeeping operations.
- **Congress Should Withhold U.S. Assessed Funding for the United Nations**

The United States has been the United Nations' biggest contributor since it was founded in 1945. In 2004, the U.S. contributed \$360 million toward the U.N.'s routine operating expenses - 22 percent of the U.N.'s regular annual operating budget and more than the combined contributions of France, Germany, China, Canada and Russia. Congressional leaders should make it clear that Congress will withhold all of the U.S. assessed contribution until the United Nations has provided unlimited access to relevant documentation on the Oil-for-Food Program and the sworn testimony of U.N. officials. The withheld funds should be placed in an escrow account, with future disbursement contingent on these matters being satisfactorily resolved.